

Your VESTED



INTEREST

North Dakota State Investment Board

September 2002

"UFFDA"

"Uffda"...an expression that summarizes this past fiscal year's investment environment quite nicely. Or, at least, it's a description that's fit to print!

The year began inconspicuously enough. Although we hadn't quite realized it, the economy was mired in recession, an economic event that the stock market had forecast back in March 2000 when the slide in stock prices began to take hold. The prevalent feeling by July 2001 was an expectation of the market finding a bottom, now that many of the high-flying stocks had been brought back into line. Surely the breadth of the market was showing some strength and we would soon resume our upward climb towards the heavens, right? Not so fast...



The downward slide crept into September as the market lost another 3.6% by the close of business on September 10. Then, our lives were changed forever as

the morning of the 11th brought horrific disaster of unthinkable proportions. The markets closed to assess the damages and allow time for America to gather her strength. When the trading resumed several days later, it was no surprise to see the bottom fall out of the stock market. Intrepid investors were not to be halted, however, as the slide reversed itself by September 21 and the month ultimately saw a loss of about 8%. By this point, we were one quarter into the fiscal year and the stock market had given up 15% of its worth.

November saw Enron become a household word. After its \$15 billion debt was downgraded to junk status, Enron was removed from the S&P 500 index, confirming its exodus from the list of America's elite. As November yielded to December, Enron investors were looking at a 99% year-to-date loss in their stock.

The carnage on Wall Street began to widen out as the shares of investment banks and media companies began to take their licks along with assorted other types of companies. The dawn of 2002 brought us just what we didn't need, a brand new worry...questionable accounting practices among our publicly traded companies such as Tyco

Continued inside...



NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

*Teachers' Fund for Retirement
State Investment Board*

State Investment Board

Lt. Governor Jack Dalrymple, *Chair*
Weldee Baetsch, Brent Edison,
Kathi Gilmore, David Gunkel, Paul Lofthus,
Jim Poolman, Gary Preszler, Howard Sage,
Mark Sanford, Norman Stuhlmiller.

RIO Administrative Office

Steve Cochrane, *Executive Director/CIO*
Fay Kopp, *Deputy Director/Retirement Officer*
Shelly Schumacher, *Editor*

ND Retirement and Investment Office

1930 Burnt Boat Drive, P.O. Box 7100
Bismarck, ND 58507-7100
701-328-9885, Toll free: 1-800-952-2970
www.discovernd.com/rio

*Articles are for general information only and are not
intended to provide specific advice or recommendation.
Other forms of this newsletter are available on request.*



Steve Cochrane, CFA
Executive Director/CIO

FROM THE DIRECTOR'S CHAIR

So, what are nice funds like ours doing in a market like this? Surviving. And looking forward to better days ahead.

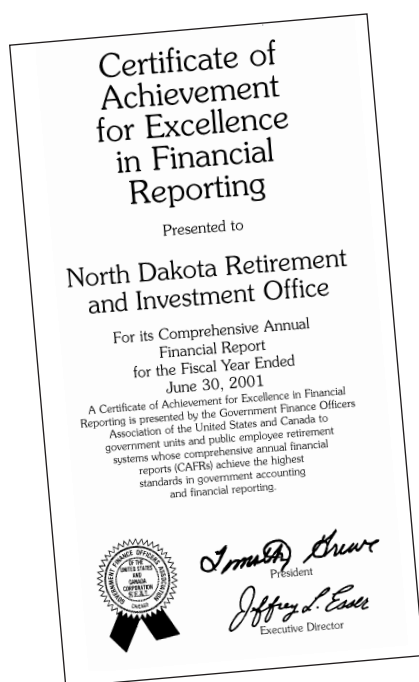
I sometimes wonder, "what would it be like if the markets weren't so crazy?" "What if returns were smooth instead of variable?" Well, if that were the case, the first thing I would do is short the stock of the makers of Tums and Roloids and then try to help the business analysts on TV find a new job, because there wouldn't be much to talk about anymore.

My first job in the investment industry began in 1981 – 21 years ago. The last market scare of any significance in my career was 1987 when the market took a tumble that shook the world, or so it seemed. That downturn now equates to a blip on the 20-year chart of the S&P 500 stock index (below). What does stand out is the huge run-up that began in the mid-90's and carried on until March 2000. As the millennium parties fizzled out, so did the stock market and the drop from its lofty peak has been dramatic to say the least.

If you are like most investors, the up-cycle of the 90's was eminently enjoyable, but you had a nagging feeling that in spite of what you might hear to the contrary, the world really hadn't changed and payback would happen someday.

So where are we now? Well, it depends on who you ask. Some say the market is still way overvalued. Others say that we are at or below fair valuation, especially when you consider how low interest rates are. Some say that stocks will do no better than bonds for years to come while others urge us to get in the market now.

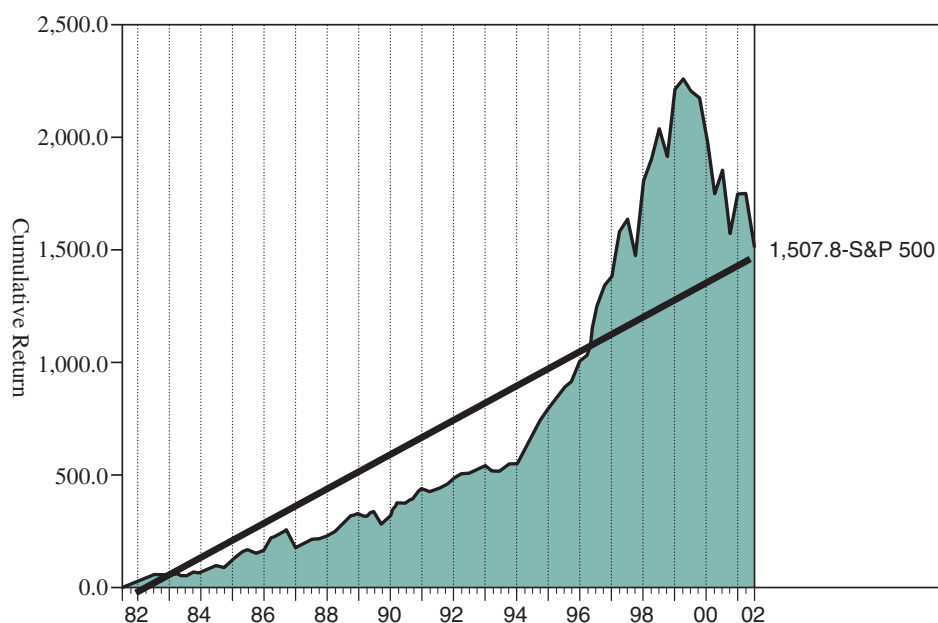
But getting back to my earlier question about the markets...what if returns had been smooth for the last 20 years instead of the wild ride we have had? This is illustrated by the line superimposed on the stock market graph below. A nice smooth annual increase of 14.9%, and everyone would be blissfully at peace with themselves and their broker and the S&P 500 would be exactly where it is today. So what's all the fuss about?!



ACHIEVEMENT AWARD RECEIVED

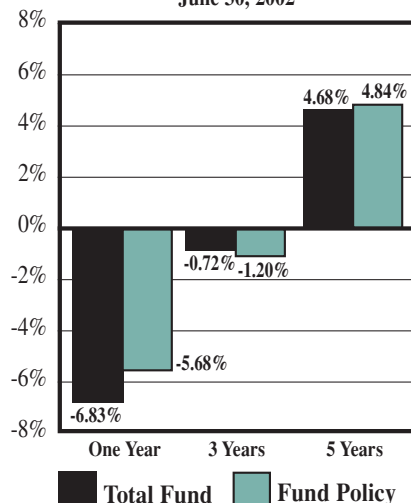
The ND Retirement and Investment Office (RIO) is pleased to announce that its Comprehensive Annual Financial Report (CAFR) for June 30, 2001 has qualified for a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA).

CUMULATIVE RETURN For 20 years ended June 30, 2002

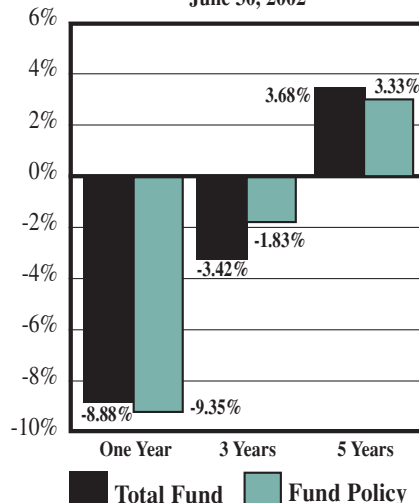


INVESTMENT PERFORMANCE

**INVESTMENT PERFORMANCE
SUMMARY – PERS**
June 30, 2002



**INVESTMENT PERFORMANCE
SUMMARY – TFFR**
June 30, 2002



“UFFDA” *Continued from front cover*

and Williams Companies. Even IBM reported the inadequate disclosure of a \$300 million asset sale. The unraveling had begun. Enron, WorldCom, Adelphia, Omnicom; is all of corporate America cooking its books? And how do you get this past the auditors? Enter Arthur Anderson, good friend of the misguided CEO. This once esteemed auditor would be found guilty of obstructing justice, but not before its ultimate demise was written on the walls.

And what of the little guy, you know the trusting Joe on the street who thinks that a “buy” recommendation from Merrill Lynch means something? Think again. What industry insiders have known for ages came to light as Mother Merrill forked over a \$100 million fine for allegedly allowing its research analysts (the folks Joe depended on to tell him what to buy and what to sell) to be influenced by the firm’s investment banking relationships. The accountants, the auditors, the brokers...who can you trust? You ask yourself... “Should I even own stock because who knows what it is truly worth and obviously everyone in trusted positions is lying?”

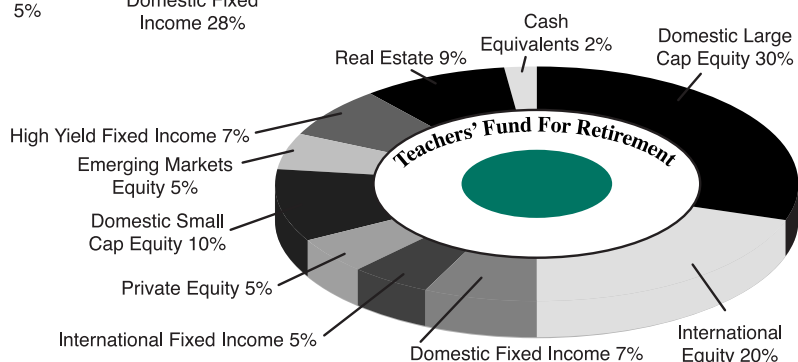
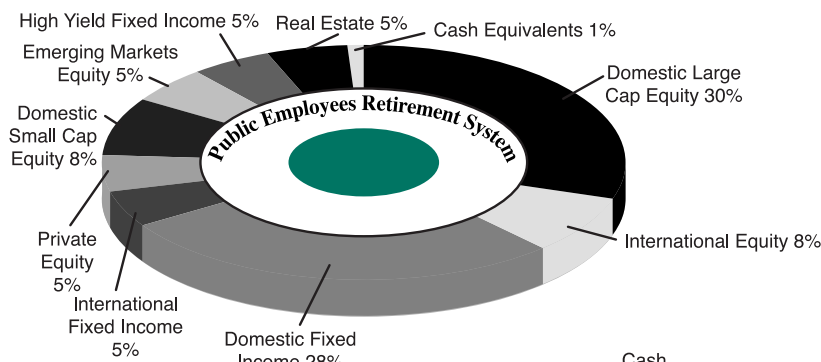
It is no wonder that in this type of an environment, investors have sold their stocks and corporate bonds and sought shelter in the one refuge they believe they can have confidence in – U. S. bonds.

The remainder of the fiscal year was rounded out with former executives being publicly taken away in handcuffs, suicides by individuals close to fraudulent activity, fines being levied, laws being enacted to counter opportunities to engage in fraud and news that the recession may have been worse than originally thought. And the search for bin Laden continues, as we teeter on the brink of war with Iraq.

Fiscal year 2002 shall forever be on the books as a 12-month period of economic, social and political stress; a rather depressing segment of history. Against this backdrop, a fall in the S&P 500 of 18% for the year seems almost merciful.

TARGET ASSET ALLOCATION FOR PERS & TFFR

Period Ended June 30, 2002



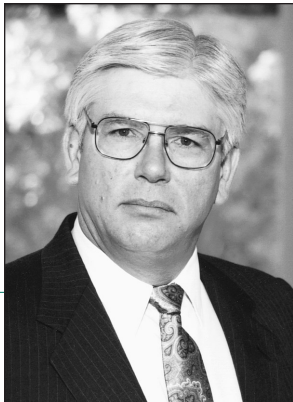
Avid readers of *Your Vested Interest* know that the Enron scandal had a minimal effect on the pension assets managed by the SIB. WorldCom had an even lesser effect as pension assets at risk totaled less than 2/100th's of 1% of assets prior to their announcement of accounting irregularities. Once again, diversification and the vigilance of our investment managers has insulated our funds from serious damage.

SIB ELECT OFFICERS

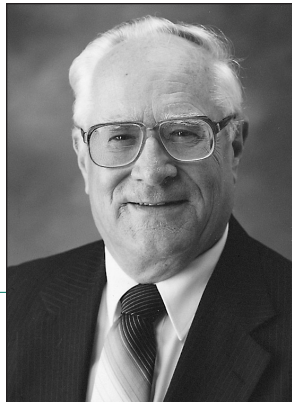
The State Investment Board (SIB) recently held its annual election of officers. By unanimous vote, the SIB chose the following members to hold leadership positions for the 2002-2003 fiscal year:



Chairman
Lt. Governor
Jack Dalrymple



Vice-Chair
Mr. Howard Sage



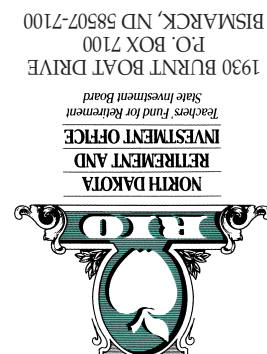
Parliamentarian
Mr. Norm Stuhlmiller

Visit our website for information from the
North Dakota Retirement and Investment Office...

www.discovernd.com/rio

SIB AUDIT COMMITTEE REAPPOINTED

All five members of the SIB Audit Committee were reappointed in July. The Audit Committee consists of three SIB members and two independent participants. Current members include Norm Stuhlmiller, representing the Teachers' Fund for Retirement, David Gunkel of the Public Employees Retirement System, and State Treasurer Kathi Gilmore representing elected and appointed officials. Korrine Lang, CPA, of Job Service North Dakota and Daryl Splichal, a Certified Internal Auditor with MDU Resources Group, Inc., serve as the independent participants on the Committee.



PRESORTED
STANDARD
U.S. POSTAGE
PAID
PERMIT NO. 325
BISMARCK, ND
58501